

DOWAGIAC DISTRICT LIBRARY

DOWAGIAC, MICHIGAN

FINANCIAL STATEMENTS

Year ended September 30, 2008

DOWAGIAC DISTRICT LIBRARY

DOWAGIAC, MICHIGAN

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SCARPONE & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

October 27, 2008

Members of the Library Board
Dowagiac District Library
Dowagiac, Michigan

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and the major governmental funds of Dowagiac District Library as of and for the year ended September 30, 2008, which collectively compromise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Dowagiac District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of Dowagiac District Library as of September 30, 2008, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 27, 2008 on our consideration of Dowagiac District Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of that report is to describe the scope of testing of internal controls over financial reporting and compliance and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis and the required supplemental information identified in the table of contents are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Scarfone & Co., P.C.

DOWAGIAC DISTRICT LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2008

The Library is reporting financial statements that meet the requirements of Governmental Accounting Standards Board Statement 34 (GASB No. 34). The two primary elements involved in meeting these requirements is the addition of a Management's Discussion and Analysis (MD&A) and the reporting of all capital assets and depreciation of such assets.

Library materials and other fixed assets acquired in years prior to October 1, 2004, such as furniture, equipment and computers, were determined to have exceeded their estimated useful lives and therefore fully depreciated. Such assets are not reflected in the Statement of Net Assets.

Condensed Financial Information

The table below compares certain financial information in a condensed format for the years ended September 30, 2008 and 2007, respectively:

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 305,985	\$ 256,970
Interest receivable	445	-
Capital assets	<u>274,850</u>	<u>193,170</u>
Total assets	581,280	450,140
Current liabilities	<u>20,157</u>	<u>3,826</u>
Net assets:		
Invested in capital assets	274,850	193,170
Restricted	30,432	61,597
Unrestricted	<u>255,841</u>	<u>191,547</u>
Total net assets	\$ <u>561,123</u>	\$ <u>446,314</u>
Revenues:		
Property taxes	\$ 321,641	\$ 301,741
Penal fines	57,091	54,839
State-shared revenues	9,307	11,269
Charges for services	18,342	12,336
Other	<u>21,234</u>	<u>27,629</u>
Total revenues	427,615	407,814
Expenditures	<u>312,806</u>	<u>275,062</u>
Change in net assets	\$ <u>114,809</u>	\$ <u>132,752</u>

DOWAGIAC DISTRICT LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONCLUDED

September 30, 2008

Overall Financial Position

The Library's primary source of revenue is from property taxes and penal fines. For the year ended September 30, 2008, total property tax collections were \$321,641 and total penal fine revenues totaled \$57,091, which represented 76% and 13% of total revenues, respectively.

Employee compensation, including related payroll taxes and fringe benefits are the largest overall expenditures of the Library. For the year ended September 30, 2008, these expenditures totaled \$171,861, which represented 41% of the Library's total expenditures.

Expenditures for budgeted capital outlay were the second largest overall expenditures of the Library, totaling \$100,299 for the year, which represented approximately 25% of the Library's total expenditures. Such expenditures are summarized as follows:

Elevator project	\$ 56,366
Roofing project	29,290
Copiers	8,433
Computers	4,805
Other capital outlay (under capitalization threshold)	<u>1,405</u>
Total	\$ <u>100,299</u>

Library materials, which consist of additions to the Library's books, audio, video and periodical collections, were the third largest overall expenditures of the Library. These expenditures totaled \$41,816, and represented approximately 10% of the Library's total expenditures.

LIBRARY BUDGET HIGHLIGHTS

During the course of the fiscal year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments occurring were changes in the budgeted amounts for employee compensation and fringe benefits.

DOWAGIAC DISTRICT LIBRARY
GOVERNMENTAL FUNDS BALANCE SHEET
AND
STATEMENT OF NET ASSETS

September 30, 2008

	Operating Fund	Capital Fund	Total	Adjustments (Note G)	Statement of Net Assets
<u>ASSETS</u>					
Cash and cash equivalents	\$ 256,184	\$ 49,801	\$ 305,985	\$ -	\$ 305,985
Interest receivable	445	-	445		445
Capital assets not being depreciated				56,366	56,366
Capital assets, net of accumulated depreciation	-	-	-	218,484	218,484
TOTAL ASSETS	\$ 256,629	\$ 49,801	\$ 306,430	\$ 274,850	\$ 581,280
<u>LIABILITIES</u>					
Accounts payable	\$ 788	\$ 19,369	20,157	-	20,157
TOTAL LIABILITIES	788	19,369	20,157	-	20,157
<u>FUND BALANCES/NET ASSETS</u>					
Restricted for capital outlay	-	30,432	30,432	(30,432)	-
Unrestricted	255,841	-	255,841	(255,841)	-
	255,841	30,432	286,273	(286,273)	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 256,629	\$ 49,801	\$ 306,430		
Net Assets					
Invested in capital assets					274,850
Restricted for capital outlay					30,432
Unrestricted					255,841
TOTAL NET ASSETS					\$ 561,123

See accompanying notes to basic financial statements.

DOWAGIAC DISTRICT LIBRARY

**GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES AND STATEMENT OF ACTIVITIES**

For the year ended September 30, 2008

	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Total</u>	<u>Adjustments (Note G)</u>	<u>Statement of Activities</u>
REVENUES:					
Local taxes	\$ 321,641	\$ -	\$ 321,641	\$ -	\$ 321,641
Penal fines	57,091	-	57,091	-	57,091
State-shared revenues	9,307	-	9,307	-	9,307
Charges for services	18,342	-	18,342	-	18,342
Ladies Library Association contribution	8,507	-	8,507	-	8,507
Other contributions and gifts	457	-	457	-	457
Interest and dividends	6,551	2,438	8,989	-	8,989
Contracted services	2,474	-	2,474	-	2,474
Miscellaneous revenue	807	-	807	-	807
Total Revenues	425,177	2,438	427,615	-	427,615
EXPENDITURES:					
Salaries and wages	142,057	-	142,057	-	142,057
Payroll taxes	10,867	-	10,867	-	10,867
Health and dental	14,852	-	14,852	-	14,852
Life insurance	577	-	577	-	577
Retirement	2,602	-	2,602	-	2,602
Worker's compensation	893	-	893	-	893
Supplies	7,245	-	7,245	-	7,245
Professional fees	5,892	-	5,892	-	5,892
Contractual maintenance	10,473	-	10,473	-	10,473
Telephone	1,838	-	1,838	-	1,838
Travel and training	1,618	-	1,618	-	1,618
Community promotion	3,205	-	3,205	-	3,205
Insurance	4,866	-	4,866	-	4,866
Utilities	14,657	-	14,657	-	14,657
Equipment maintenance	1,427	-	1,427	-	1,427
Computer maintenance	18,636	-	18,636	-	18,636
Building maintenance	8,454	-	8,454	-	8,454
Miscellaneous	53	-	53	-	53
General fund administration	2,159	-	2,159	-	2,159
Library materials	41,816	-	41,816	-	41,816
Capital outlay	2,139	98,160	100,299	(98,894)	1,405
Depreciation	-	-	-	17,214	17,214
Total Expenditures	296,326	98,160	394,486	(81,680)	312,806
Excess (Deficiency) of Revenues Over (Under) Expenditures	128,851	(95,722)	33,129	81,680	114,809
OTHER FINANCING SOURCES (USES)					
Transfers In (Out)	(64,557)	64,557	-		
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	64,294	(31,165)	33,129		
Change in Net Assets					114,809
FUND BALANCES/NET ASSETS					
Beginning of Year	191,547	61,597	253,144	193,170	446,314
End of Year	\$ 255,841	\$ 30,432	\$ 286,273	\$ 274,850	\$ 561,123

See accompanying notes to basic financial statements.

DOWAGIAC DISTRICT LIBRARY

NOTES TO BASIC FINANCIAL STATEMENTS

For the year ended September 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of Dowagiac District Library ("Library") conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of the significant policies adopted by the Library are as follows:

REPORTING ENTITY:

The Dowagiac District Library is comprised of all the territory which is currently located within the jurisdictional limits of the City of Dowagiac, Cass County; Wayne Township, Cass County; Bainbridge Township, Berrien County; and the Dowagiac Union School District that is not part of the Cass District Library and the portion of the Dowagiac Union School District that is not part of the Eau Claire District Library. Accordingly, the Dowagiac District Library district includes a portion of the County of Cass, and significantly lesser portions of the County of Van Buren and the County of Berrien, State of Michigan.

The Library is funded primarily through property taxes, state aid, penal fines, grants, and donations. The voters of the districts approved a permanent .75 mill tax, which began with the tax levy effective December 1, 2005. Due to the Headlee roll back amendment, a net .7122 mill tax was levied on December 1, 2007.

The Library is governed by an appointed board (the "Library Board") which consists of seven members. The City of Dowagiac provides two members; the Dowagiac Union School District provides three members; and Wayne Township provides two members.

BASIS OF PRESENTATION:

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Government-Wide Financial Statements (i.e., the Statement of Net Assets and the Statement of Activities) and Fund Financial Statements. The government-wide and fund financial statements are combined, with a reconciliation shown between them.

The Library has two funds, the General Fund and the Capital Fund.

General Fund - The General Fund is the general operating fund of the Library and accounts for all revenues and expenditures of the Library not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund.

Capital Fund - The Capital Fund is used to account for the accumulation of resources appropriated for capital outlay expenditures.

DOWAGIAC DISTRICT LIBRARY

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended September 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

The funds are budgeted and accounted for using the current financial resources measurement and the modified accrual basis of accounting. Revenue is recognized as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

CASH AND CASH EQUIVALENTS:

Cash and cash equivalents are recorded at cost and include cash investments with an original maturity of three months or less.

CAPITAL ASSETS:

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Building improvements	25 years
Furniture and equipment	5-10 years

The minimum capitalization threshold is any item with a total cost greater than \$1,000.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

DOWAGIAC DISTRICT LIBRARY

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended September 30, 2008

NOTE B - CASH AND CASH EQUIVALENTS:

Cash and cash equivalents consisted of the following at September 30, 2008:

Petty cash	\$ 50
Deposits in financial institutions	256,134
Deposits in brokerage firms	<u>49,801</u>
	<u>\$ 305,985</u>

The above deposits in financial institutions of \$256,134 were reflected in the accounts of the Library's financial institutions (without recognition of checks written but not yet cleared, or of deposits in transit) at \$272,588. Of that amount, \$131,268 was covered by federal depository insurance coverage and \$141,320 was uninsured and uncollateralized.

The above deposit in brokerage firms of \$49,801 is in violation of Public Act 20 of 1943 and also in violation with the Library's investment policy. All of such deposits were uninsured and uncollateralized.

On October 3, 2008, the United States Congress temporarily increased Federal Deposit Insurance Corporation (FDIC) deposit insurance from \$100,000 to \$250,000 per depositor through December 31, 2009. Using this increased coverage value, all of the Library's deposits in financial institutions were covered by federal deposit insurance coverage.

NOTE C - CAPITAL ASSETS:

Capital asset activity of the Library's governmental activities for the year ended September 30, 2008 was as follows:

	Balance Sept. 30, 2007	Additions	Deletions	Balance Sept. 30, 2008
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 56,366	\$ -	\$ 56,366
Capital assets being depreciated				
Building improvements	170,116	29,290	-	199,406
Furniture and equipment	<u>43,671</u>	<u>13,238</u>	<u>-</u>	<u>56,909</u>
	213,787	42,528	-	256,315
Accumulated depreciation	<u>(20,617)</u>	<u>(17,214)</u>	<u>-</u>	<u>(37,831)</u>
Net capital assets being depreciated	<u>193,170</u>	<u>25,314</u>	<u>-</u>	<u>218,484</u>
Capital assets, net	<u>\$ 193,170</u>	<u>\$ 81,680</u>	<u>\$ -</u>	<u>\$ 274,850</u>

The Library's capital assets acquired in years prior to the year ended September 30, 2005, were deemed to have exceeded their estimated useful lives and therefore are fully depreciated. Such assets are not reflected in the Statement of Net Assets.

DOWAGIAC DISTRICT LIBRARY

NOTES TO BASIC FINANCIAL STATEMENTS - CONCLUDED

For the year ended September 30, 2008

NOTE D - PENSION PLAN:

The Library has a defined benefit pension plan which provides retirement benefits to employees meeting eligibility requirements. The Library's defined benefit plan for its employees is administered through the Municipal Employees' Retirement System of Michigan (MERS). MERS is a statewide retirement plan that municipalities may adopt for their employees. Public Act 220 of 1996 of the State of Michigan provided MERS with the power to establish and amend the benefit provisions to Dowagiac District Library.

MERS members shall contribute an amount varying from 0.00 percent to 10.0 percent of compensation, depending upon which contribution plan is selected. The Library is required to contribute at an actuarially determined rate, which is currently 5.78% of reported wages. For the year ended September 30, 2008, the employer contributions to the plan totaled \$2,602.

NOTE E- RISK MANAGEMENT:

The Library maintains commercial insurance to insure potential significant losses. There have been no significant reductions in insurance coverage by the Library for the year ended September 30, 2008.

NOTE F - RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS:

Total fund balance and the net change in fund balance of the Library's governmental funds differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference is a result of the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental funds balance sheet and statement of revenue, expenditures, and changes in fund balance. The following are reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balances - modified accrual basis	\$ 286,273
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Amounts reported in the Statement of Net Assets are different because:

Capital assets are not financial resources, and are not reported in the funds	<u>274,850</u>
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Net assets of Governmental Funds - full accrual basis	\$ <u>561,123</u>
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DOWAGIAC DISTRICT LIBRARY

NOTES TO BASIC FINANCIAL STATEMENTS - CONCLUDED

For the year ended September 30, 2008

**NOTE F - RECONCILIATION OF FUND FINANCIAL STATEMENTS TO
GOVERNMENT-WIDE FINANCIAL STATEMENTS - CONCLUDED:**

Net Change in Governmental Fund Balances - modified accrual basis	\$ 33,129
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Amounts reported in the Statement of Activities are different because:

Capital outlays subject to the capitalization policy are reported as expenditures in the Statement of Revenue, Expenditures, and Changes in Fund Balance; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	98,894
Depreciation	<u>(17,214)</u>

Change in Net Assets of Governmental Funds - full accrual basis	\$ <u>114,809</u>
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NOTE G - CONSTRUCTION COMMITMENT:

During the fiscal year ended September 30, 2008, the Library contracted with Giannola Construction Services for the construction of an elevator at the Library building. The project is scheduled to be completed in November, 2008. The estimated final payment of \$26,625 will be due upon the project's completion.

REQUIRED SUPPLEMENTARY INFORMATION

DOWAGIAC DISTRICT LIBRARY
BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the year ended September 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local taxes	\$ 312,000	\$ 312,000	\$ 321,641	\$ 9,641
Penal fines	48,700	48,700	57,091	8,391
State-shared revenues	5,600	5,600	9,307	3,707
Charges for services	12,000	12,000	18,342	6,342
Ladies Library Association contribution	5,000	5,000	8,507	3,507
Other contributions and gifts	3,000	3,000	457	(2,543)
Interest and dividends	5,000	5,000	6,551	1,551
Contracted services	-	-	2,474	2,474
Miscellaneous	1,000	1,000	807	(193)
	<u>392,300</u>	<u>392,300</u>	<u>425,177</u>	<u>32,877</u>
EXPENDITURES:				
Salaries and wages	142,800	147,000	142,057	4,943
Payroll taxes	10,772	11,500	10,867	633
Health and dental	16,000	16,000	14,852	1,148
Life insurance	270	700	577	123
Retirement	4,000	4,000	2,602	1,398
Severance/unemployment	2,000	2,000	-	2,000
Worker's compensation	1,200	1,200	893	307
Supplies	7,000	7,500	7,245	255
Professional fees	6,000	6,500	5,892	608
Contractual maintenance	8,800	10,500	10,473	27
Co-op membership	2,800	2,800	-	2,800
Telephone	2,200	2,200	1,838	362
Travel and training	2,000	2,000	1,618	382
Community promotion	3,000	3,500	3,205	295
Insurance	5,200	5,200	4,866	334
Utilities	12,000	15,000	14,657	343
Equipment maintenance	1,000	1,200	1,427	(227)
Computer maintenance	7,600	20,000	18,636	1,364
Building maintenance	4,000	8,000	8,454	(454)
Miscellaneous	1,000	1,000	53	947
General fund administration	2,000	2,000	2,159	(159)
Library materials	51,000	51,000	41,816	9,184
Contingency	2,658	2,658	2,139	519
Transfers out	97,000	99,000	64,557	34,443
	<u>392,300</u>	<u>422,458</u>	<u>360,883</u>	<u>61,575</u>
EXCESS OF REVENUES OVER EXPENDITURES	-	(30,158)	64,294	94,452
FUND BALANCE, BEGINNING OF YEAR	<u>191,547</u>	<u>191,547</u>	<u>191,547</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 191,547</u>	<u>\$ 161,389</u>	<u>\$ 255,841</u>	<u>\$ 94,452</u>

See accompanying notes to basic financial statements.



SCARPONE & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

October 27, 2008

Members of the Library Board
Dowagiac District Library
Dowagiac, Michigan

We have audited the financial statements of Dowagiac District Library for the year ended September 30, 2008, and have issued our report thereon dated October 27, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Dowagiac District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Dowagiac District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts. However, the objective of our tests was not to provide an opinion of compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you per our engagement letter.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Dowagiac District Library are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Dowagiac District Library during the year for which there is lack of authoritative guidance or consensus. As described in the audit adjustments

section below, there were five significant transactions that if left unrecorded could have a significant effect on Dowagiac District Library's financial reporting process.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factor assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In our judgment, five of the misstatements and adjustments we proposed (detailed below) if unrecorded could have a significant effect on Dowagiac District Library's financial reporting process:

1). Transfer of funds from general fund to capital fund listed as a cash account	\$ 30,500.00
2). Transfer of funds to capital fund listed as a capital building outlay expense	\$ 19,172.80
3). Transfer of funds to capital fund listed as a capital equipment outlay expense	\$ 15,000.00
4). Capital building expenditure listed as a cash account in capital fund	\$ 10,321.43
5). Expenses for the year ended September 30, 2008 recorded in October, 2008	\$ 19,369.14

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 27, 2008.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Dowagiac District Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

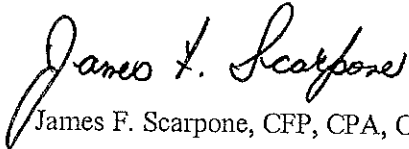
We encountered no difficulties in dealing with management in performing and completing our audit.

This letter is intended for the use of the Members of the Library Board and management and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to be of service to you. As always, should you have any questions, please don't hesitate to contact us.

Sincerely,

SCARPONE & CO., P.C.

A handwritten signature in cursive script that reads "James F. Scarpone". The signature is written in dark ink and is positioned above the printed name.

James F. Scarpone, CFP, CPA, CVA



SCARPONE & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

October 27, 2008

Members of the Library Board
Dowagiac District Library
Dowagiac, Michigan

In planning and performing our audit of the financial statements of Dowagiac District Library as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Internal Controls

In connection with our audit, we made various inquiries of management concerning the Library's internal control structure. Specific matters coming to our attention during this review include the following:

Control Deficiency - Journal Entries:

Currently the Director prepares and makes all journal entries to the general ledger. Individual journal entries are not reviewed by personnel other than the Director.

Recommendation:

All journal entries should be reviewed by a member of the Board of Directors, ideally the Treasurer. Once the entry is prepared and posted by the Director, the entry documents should be initialed or signed by both the Director and the person reviewing the entry. Documentation or reference to documentation supporting the journal entry should be maintained and attached to the journal entry paperwork.

Control Deficiency - Year-end adjusting entries:

Currently the Director does not prepare reversing entries for previous year's receivables or payables, nor does he tabulate or record year-end adjusting entries for such receivables and payables.

Recommendation:

The Director should post reversing entries for previous year's receivable or payables as well as prepare and post year-end adjusting entries for receivable and payables. These entries should be reviewed as stated in our first recommendation concerning journal entries.

Control Deficiency - Mail Receipts:

Currently the mail is opened by the circulation coordinator. No other individual is present when she opens the mail.

Recommendation:

If staffing numbers allow, the mail should be opened by two persons simultaneously. The practice of recording the receipts in a separate ledger should be continued.

Control Deficiency - Bank Deposits:

Currently the circulation coordinator both prepares the bank deposits and also takes the deposits to the bank.

Recommendation:

Personnel that have not had any contact with mail, preparing deposits or bank reconciliation should take the deposit to the bank.

Control Deficiency - Capital expenses and transfers between funds not properly classified

During the course of our audit, it was determined that transfers to the capital fund were being recorded as capital expenditures in the general fund and two capital expenditure items were listed as cash funds.

Recommendation:

The Library should continue the practice of maintaining both a general fund account and a capital fund account in the accounting software. The capital fund account should include all capital expenditures made from the capital fund. The general fund should account for the transfer of funds from the general fund to the capital fund. A detailed report from each fund should be included as a part of the monthly board packets.

Control Deficiency - Brokerage account in violation of Public Act 20 of 1943:

The capital funds held at Edward Jones are in violation of Public Act 20 of 1943, and in violation of Library policy.

Recommendation:

The funds located at Edward Jones should be moved to a financial institution that is compliant with the regulations listed in Public Act 20 of 1943.

Other Matters

We offer the following comments, which are informational in nature:

Statements on Auditing Standards Nos. 104 to 111 - The Risk Assessment Standards

The AICPA has issued Statements on Auditing Standards (SAS 104 to SAS 111) which have substantially affected the auditing process, effective for the audit of the financial statements of the Library for the year ended September 30, 2008. These standards essentially redefine the audit process from start to finish and the ramifications for the audit process are substantial.

The new standards require:

- The auditor to obtain a deeper understanding of (1) the Library and its internal control, for the purpose of identifying the risks of material misstatement in the financial statements; and (2) what the Library is doing to mitigate those risks
- A more rigorous assessment of the risks of material misstatement in the financial statements based on that understanding, with additional emphasis on significant risks that call for special audit consideration
- A clear linkage between the assessed risks and the audit procedures performed, including tests of controls and substantive tests, in response to those risks

We have invested significant professional time into the redesign of our audit procedures as it relates to the Library in order to conform to these requirements. Our ultimate goal, as in the past, is to provide a quality audit, in full conformance with the requirements, and tailored to the unique environment for Michigan governmental units.

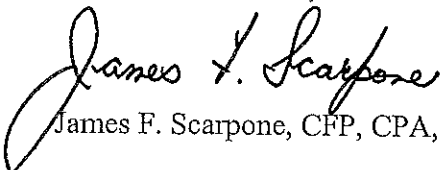
We appreciate and thank the Library's staff for their cooperation and assistance during this year's audit.

This letter is intended solely for the use of the Members of the Library Board and management and is not intended to be and should not be used by anyone other than these specified parties.

As always, should you have any questions, please don't hesitate to contact us.

Sincerely,

SCARPONE & CO., P.C.


James F. Scarpone, CFP, CPA, CVA